

TIPS ETFs: The Index Makes a Difference

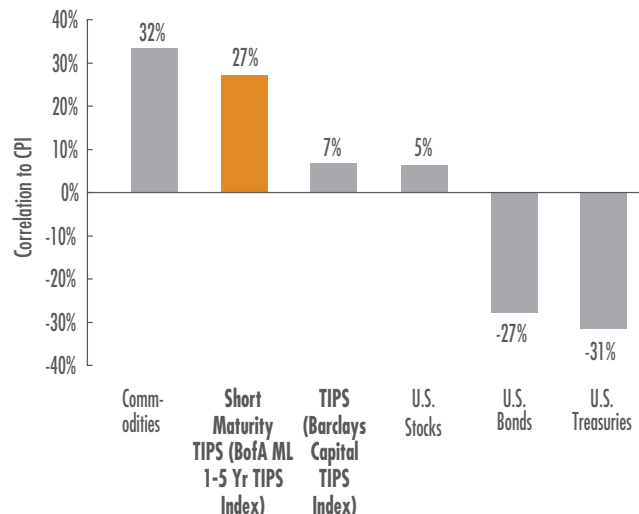
As of December 31, 2009



TIPS Maturity Matters – Components of Returns Vary by Maturity

Although Treasury Inflation Protected Securities (TIPS) of all maturities accrue CPI directly to the bond principal, **shorter maturity TIPS tend to correlate more strongly with inflation.** For longer maturity TIPS, the dominant component of returns in the short to intermediate time periods tends to be the level of real yields, as well as changes in real yields, and inflation accruals will likewise be somewhat “muted”.

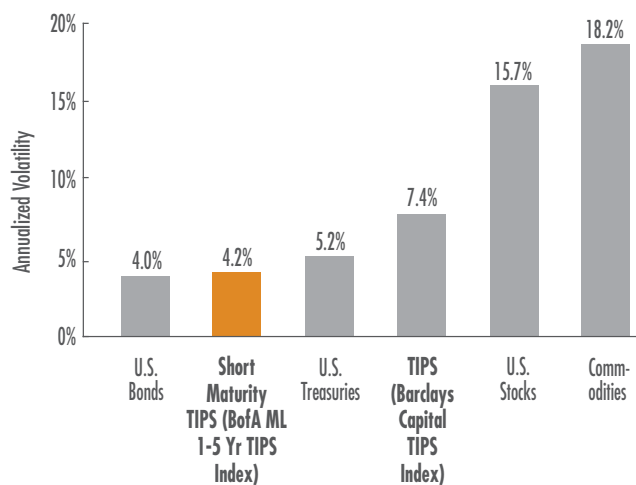
Short Maturity TIPS Exhibit Higher Correlation with Inflation Versus a Broad TIPS Index¹



TIPS Maturity Matters – Volatility of Returns Vary by Maturity

Because the bulk of the current TIPS issuance is greater than 5 years maturity, the duration of the broad TIPS index is significant. As a result, **a broad TIPS index may experience greater volatility** in price levels relative to a short maturity TIPS index.

Short Maturity TIPS Exhibit Lower Volatility Versus a Broad TIPS Index¹



¹ Sectors are represented by the following: Commodities – Dow Jones UBS Commodity Total Return Index is an unmanaged index composed of futures contracts on 19 physical commodities. The index is designed to be a highly liquid and diversified benchmark for commodities as an asset class. Prior to May 7, 2009, this index was known as the Dow Jones AIG Commodity Total Return Index. U.S. Stocks – S&P 500 Index is an unmanaged market index generally considered representative of the stock market as a whole. The index focuses on the Large-Cap segment of the U.S. equities market. U.S. Bonds – Barclays Capital U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. U.S. Treasuries – Barclays Capital U.S. Treasury Index is a measure of the public obligations of the U.S. Treasury. The Barclays Capital U.S. TIPS Index is an unmanaged market index comprised of all U.S. Treasury Inflation Protected Securities rated investment grade (Baa3 or better), have at least one year to final maturity, and at least \$250 million par amount outstanding. Performance data for this index prior to 10/97 represents returns of the Barclays Capital Inflation Notes Index. The BofA Merrill Lynch 1-5 Year US Inflation-Linked Treasury IndexSM is an unmanaged index comprised of U.S. Treasury Inflation Protected Securities with at least \$1 billion in outstanding face value and a remaining term to final maturity of at least 1 year and less than 5 years. It is not possible to invest directly in an unmanaged index.

Unless otherwise noted, statistical data is represented from January 31, 2002 to December 31, 2009.

Short Maturity TIPS – A Focused Alternative to the Broad TIPS Index

For investors looking for higher correlation to inflation and lower volatility than a broad TIPS index, a short maturity TIPS index may be an attractive and targeted alternative to the broad TIPS index, as well as other financial asset classes.

Barclays TIPS Index BofA ML 1-5 Yr TIPS Index

January 31, 2002-December 31, 2009

Annualized Return	7.00%	5.73%
Annual Volatility	7.35%	4.19%
Correlation to Inflation (CPI)	7%	27%

As of December 2009

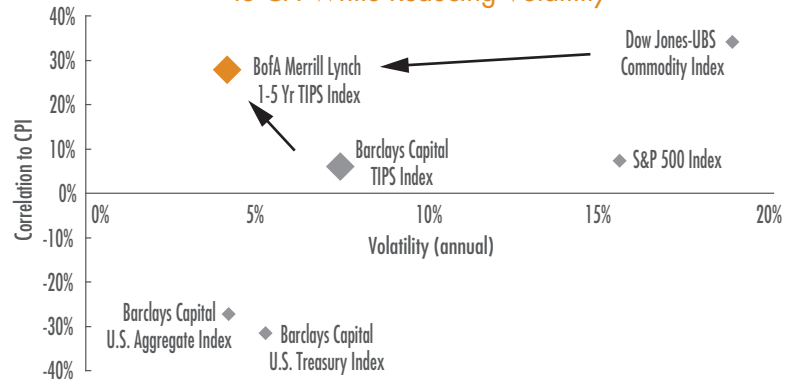
Real Yield	0.87%	0.24%
Real Duration ⁱ (yrs)	7.5	2.9
Nominal Duration ⁱⁱ (yrs)	4.9	1.7
Average Maturity (yrs)	8.8	3.0

ⁱReal duration estimates the price sensitivity of TIPS to changes in real interest rates.

ⁱⁱNominal duration allows investors to compare the duration of TIPS with that of nominal bonds. Barclays Capital calculates nominal duration by creating a minimum-variance hedge portfolio of nominal Treasuries and TIPS and computing a beta from it. The weighted average duration of this portfolio becomes the estimate of the nominal duration of the TIPS security. BofA Merrill Lynch calculates nominal duration by multiplying real duration by a rolling 3-month correlation of real and nominal yields.

Sources: PIMCO, Barclays Capital, Bloomberg, BofA Merrill Lynch

Short Maturity TIPS May Improve Correlation to CPI While Reducing Volatility¹



This table compares the broader Barclays Capital TIPS Index to the shorter maturity BofA Merrill Lynch 1-5 Year TIPS Index demonstrating that the index has lower volatility, and higher correlation to inflation.

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the U.S. Government; portfolios that invest in such securities are not guaranteed and will fluctuate in value. Inflation-linked bonds (ILBs) issued by a government are fixed-income securities whose principal value is periodically adjusted according to the rate of inflation; ILBs decline in value when real interest rates rise. Treasury Inflation-Protected Securities (TIPS) are ILBs issued by the U.S. Government.

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